

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED

Postal Rate and Fee Changes, 1997

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Docket No. R97-1
OFFICE OF THE CLERK

**NEWSPAPER ASSOCIATION OF AMERICA
WITNESS SHARON CHOWN
ANSWERS TO INTERROGATORIES OF
THE NATIONAL NEWSPAPER ASSOCIATION (NNA/NAA-T1-1-6)
February 11, 1998**

The Newspaper Association of America hereby provides the answer of witness Sharon Chown to the interrogatories of the National Newspaper Association filed on January 28, 1998. Each interrogatory is stated verbatim and is followed by the answer. A declaration is attached.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

February 11, 1998

William B. Baker
William B. Baker

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NNA/NAA-T1-1. Please examine Footnote 1 on page 2 of your testimony where it is stated..."[I]nstitutional costs incurred to provide a particular function should be paid by the subclasses of mail that use that function." Do you consider these "institutional costs" to be service-related costs? If not, please explain the difference between your metric and service-related costs.

Answer:

No. My proposal has nothing to do with "service-related costs."

The term "service-related costs" has been used in past proceedings to refer to "the fixed delivery costs that could be saved in the absence of published delivery standards for the preferential classes."

(Opinion and Recommended Decision, Docket No. R84-1, ¶ 3057) In

Dockets No. R77-1 and R80-1, the Commission "attributed" these service-related costs to the preferential classes of mail that were thought to cause these costs.

Unlike service-related cost proposals, I am not proposing to attribute any institutional costs to particular subclasses of mail.

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NNA/NAA-T1-2. Please state whether you consider weighted attributable costs to be a part of the "direct or indirect postal costs attributable" to a mail class that the Commission is required to consider under 39 U.S.C. § 3622 (b)(3). Please explain your answer fully.

Answer:

My weighted attributable costs are not a substitute for the actual attributable costs to be recovered from a subclass of mail, as required by 39 U.S.C. § 3622 (b)(3). I propose weighted attributable costs as a metric for assigning institutional costs only, not as a new attribution methodology. The institutional cost contribution determined by the Commission using this approach would then be added to the actual (unweighted) attributable costs to arrive at the revenues for a subclass. Please see my answers to UPS/NAA-T1-1, ADVO/NAA-T1-6(a), and ADVO/NAA-T1-7(d).

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NNA/NAA-T1-3. If your answer to Interrogatory No. 2 is yes, please state whether you believe a failure to consider weighted attributable costs as the basis for a markup could lead the Commission to approving below-cost rates for a subclass with a small markup.

Answer:

Not applicable. As explained in my response to NNA/NAA-T1-2, I recommend that the Commission use weighted attributable costs for the assignment of institutional costs *only*. As long as the revenues for a subclass exceed its actual (unweighted) attributable costs, the subclass will make a positive contribution to the institutional costs of the Postal Service.

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NNA/NAA-T1-4. If your answer to Interrogatory No. 3 is yes, please state whether you are recommending that weighted attributable costs as you define them should be considered incremental costs by the Commission.

Answer:

Not applicable. Please see my response to NNA/NAA-T1-2.

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NNA/NAA-T1-5. Please examine the chart attached to this interrogatory and labeled "Table 1. Comparison of Attributable Cost and Weighted Attributable Cost." Please confirm that the markup proposed in your testimony would result in an increase in institutional costs for within-county mail from \$2.385 million to \$3.666 million. If you do not confirm, please explain why and provide the percentage increase in markup that you are proposing for within-county and regular rate periodicals.

Answer:

Not confirmed. I do not propose any specific markups in my direct testimony. Nor do I propose a specific dollar amount of institutional cost contribution for any subclass of mail. I simply provide a better metric to which the Commission can apply its judgment to determine the appropriate institutional cost contributions.

The increase in institutional costs for within-county mail shown in your chart results from applying the *Postal Service's* proposed markups to my weighted attributable costs. This is not my recommendation.

**Table 1. Comparison of Attributable Cost and Weighted Attributable Cost
(Dollars in Thousands)**

Class & Subclass	USPS Markups Based Upon Attributable Costs			Chown Method					
				USPS Markups Based Upon Weighted Costs			Institutional Cost Based Upon USPS Markup		
	Attributable Cost ¹	Institutional Cost ²	Markup	Weighted Attributable Cost ³	Institutional Cost ²	Markup	Weighted Attributable Cost ¹	Institutional Cost	Markup
First-Class Mail									
Single Letters	\$12,758,884	\$9,300,005	73.6%	\$11,888,345	\$9,300,005	79.0%	\$11,888,345	\$8,749,559	73.6%
Worksharing Letters	4,847,884	7,418,928	183.3%	4,566,704	7,418,928	162.5%	4,566,704	8,371,469	183.3%
Total Letters	16,806,748	16,809,021	100.0%	16,455,049	16,809,021	102.2%	16,455,049	16,458,254	100.0%
Single Postcards	432,281	228,751	52.9%	500,482	228,751	45.7%	500,482	264,853	52.9%
Worksharing Postcards	188,123	287,843	167.3%	188,045	287,843	136.6%	188,045	327,931	167.3%
Total Cards	662,384	498,594	83.8%	688,527	498,594	71.3%	688,527	583,897	83.8%
Total	17,388,132	17,305,615	99.5%	17,151,578	17,305,615	100.9%	17,151,578	17,060,370	99.5%
Priority Mail	2,288,217	2,088,476	92.1%	1,343,833	2,088,476	155.3%	1,343,833	1,237,249	92.1%
Express Mail	410,684	430,852	104.9%	433,188	430,852	99.4%	433,188	454,383	104.9%
Mailgrams	508	4,188	820.5%	846	4,188	492.7%	846	6,941	820.5%
	1.0183								
Periodicals									
In County	81,380	2,305	2.8%	129,401	2,305	1.8%	129,401	3,666	2.8%
Nonprofit	331,471	11,180	3.4%	388,818	11,180	3.0%	366,816	12,350	3.4%
Classroom	12,755	-2,215	-17.4%	11,738	-2,215	-18.9%	11,738	-2,038	-17.4%
Regular-Rate	1,577,889	111,057	7.0%	1,567,121	111,057	7.1%	1,567,121	110,299	7.0%
Total	2,003,475	122,307	6.1%	2,075,074	122,307	5.9%	2,075,074	126,678	6.1%
Standard Mail A									
Single Piece	-298	298	-100.0%	0	298	N/A	0	0	-100.0%
Commercial Regular	5,191,874	2,830,371	54.5%	5,754,017	2,830,371	49.2%	5,754,017	3,136,946	54.5%
Commercial ECR	1,885,248	2,418,756	128.3%	3,111,033	2,418,756	77.7%	3,111,033	3,991,427	128.3%
Total Commercial	7,078,824	5,249,425	74.2%	8,865,050	5,249,425	59.2%	8,865,050	6,576,076	74.2%
Nonprofit	1,107,105	244,328	22.1%	1,207,983	244,328	20.2%	1,207,983	266,918	22.1%
Nonprofit ECR	125,121	78,287	61.0%	185,779	78,287	41.1%	185,779	113,196	60.9%
Total Nonprofit	1,232,226	320,615	26.0%	1,393,762	320,615	23.0%	1,393,762	382,645	26.0%
Total Standard Mail A	8,308,850	5,570,040	67.0%	10,258,813	5,570,040	54.3%	10,258,813	6,877,245	67.0%
Standard Mail B									
Parcel Post	753,327	29,589	3.9%	531,757	29,589	5.6%	531,757	20,886	3.9%
Bound Printed Matter	348,013	178,595	51.6%	352,471	178,595	50.7%	352,471	181,928	51.6%
Special Rate	258,880	95,470	37.2%	221,143	95,470	43.2%	221,143	82,195	37.2%
Library Rate	48,085	3,342	6.8%	37,623	3,342	8.9%	37,623	2,562	6.8%
Total	1,405,285	308,986	21.8%	1,142,983	308,986	26.9%	1,142,993	249,696	21.8%
Free-for-the-Blind, etc.	31,757	-31,757	-100.0%	27,521	-31,757	-115.4%	27,521	-27,521	-100.0%
International Mail	1,206,030	437,814	36.3%	582,742	437,814	75.1%	582,742	211,547	36.3%
Special Services	1,284,854	764,752	59.5%	1,299,087	764,752	58.9%	1,299,087	773,224	59.5%
Total Cost	34,315,672	26,987,063	78.7%	34,315,672	26,987,063	78.7%	34,315,672	26,969,813	78.6%

¹NAA-1A at 5

²NAA-1E

³NAA-1D

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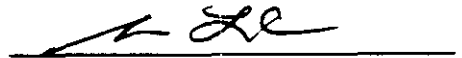
NNA/NAA-T1-6. For the purpose of this interrogatory, please assume: (1) a law requires that the markup on Class B be equal to one half of the markup on Class A; (2) Class A's markup, stated as a percentage of attributable costs, is 10 percent; and, (3) Class A's markup, stated as a percentage of weighted attributable costs, is 6 percent. What should be the markup on Class B? Please state the markup as a percentage of attributable cost or as a percentage of weighted attributable cost and explain your answer.

Answer:

In your question, if the law defines markup as the percentage of institutional cost contribution relative to actual (unweighted) attributable costs, then Class B's markup should be 5 percent of its actual (unweighted) attributable costs. See also my answers to DMA/NAA-T1-6 and VP-CW/NAA-T1-10.

DECLARATION

I, Sharon L. Chown, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "S. Chown", is written over a horizontal line.

Date: February 11, 1998